

# Department of Insurance

Analyst: Castro

## Historical Summary

<b>OPERATING BUDGET</b>	<b>FY 2005 Total App</b>	<b>FY 2005 Actual</b>	<b>FY 2006 Approp</b>	<b>FY 2007 Request</b>	<b>FY 2007 Gov Rec</b>
<b>BY PROGRAM</b>					
Insurance Regulation	5,345,400	4,657,600	5,940,600	6,387,700	6,321,400
State Fire Marshal	939,000	903,200	1,072,300	1,098,000	1,086,900
<b>Total:</b>	<b>6,284,400</b>	<b>5,560,800</b>	<b>7,012,900</b>	<b>7,485,700</b>	<b>7,408,300</b>
<b>BY FUND CATEGORY</b>					
Dedicated	6,115,800	5,317,700	6,795,900	7,249,100	7,169,300
Federal	168,600	243,100	217,000	236,600	239,000
<b>Total:</b>	<b>6,284,400</b>	<b>5,560,800</b>	<b>7,012,900</b>	<b>7,485,700</b>	<b>7,408,300</b>
Percent Change:		(11.5%)	26.1%	6.7%	5.6%
<b>BY OBJECT OF EXPENDITURE</b>					
Personnel Costs	4,139,900	3,826,700	4,349,600	4,322,200	4,255,900
Operating Expenditures	1,992,500	1,523,900	2,331,800	2,929,100	2,929,100
Capital Outlay	149,500	207,700	329,000	231,900	220,800
Trustee/Benefit	2,500	2,500	2,500	2,500	2,500
<b>Total:</b>	<b>6,284,400</b>	<b>5,560,800</b>	<b>7,012,900</b>	<b>7,485,700</b>	<b>7,408,300</b>
Full-Time Positions (FTP)	70.50	70.50	71.50	71.50	71.50

## Department Description

The Department of Insurance has two budgeted programs: Insurance Regulation and the State Fire Marshal.

The Insurance Regulation Program consists of two bureaus:

(1) The Company Activities Bureau is charged with monitoring the financial condition of all insurance entities licensed or approved to sell insurance in this state to ensure that each will be able to meet its obligations to policyholders and creditors. This bureau reviews insurance policy rates and forms to assure compliance with Idaho Code, and collects insurance premium taxes and audits insurance tax and fee returns.

(2) The Consumer Services Bureau licenses insurance agents, brokers, insurance counselors, third party administrators, adjusters, and managing general agents. This bureau provides information to those who need assistance in insurance matters, analyzes consumer and industry complaints, and investigates alleged criminal and administrative violations of the law. Investigators work with state and local law enforcement agencies in the prosecution of those violations. The Consumer Services Bureau is also responsible for the Senior Health Insurance Benefits Advisors (SHIBA), a network of volunteers that provides information and counseling to senior citizens.

[Statutory Authority: Idaho Code §41-201 et seq.]

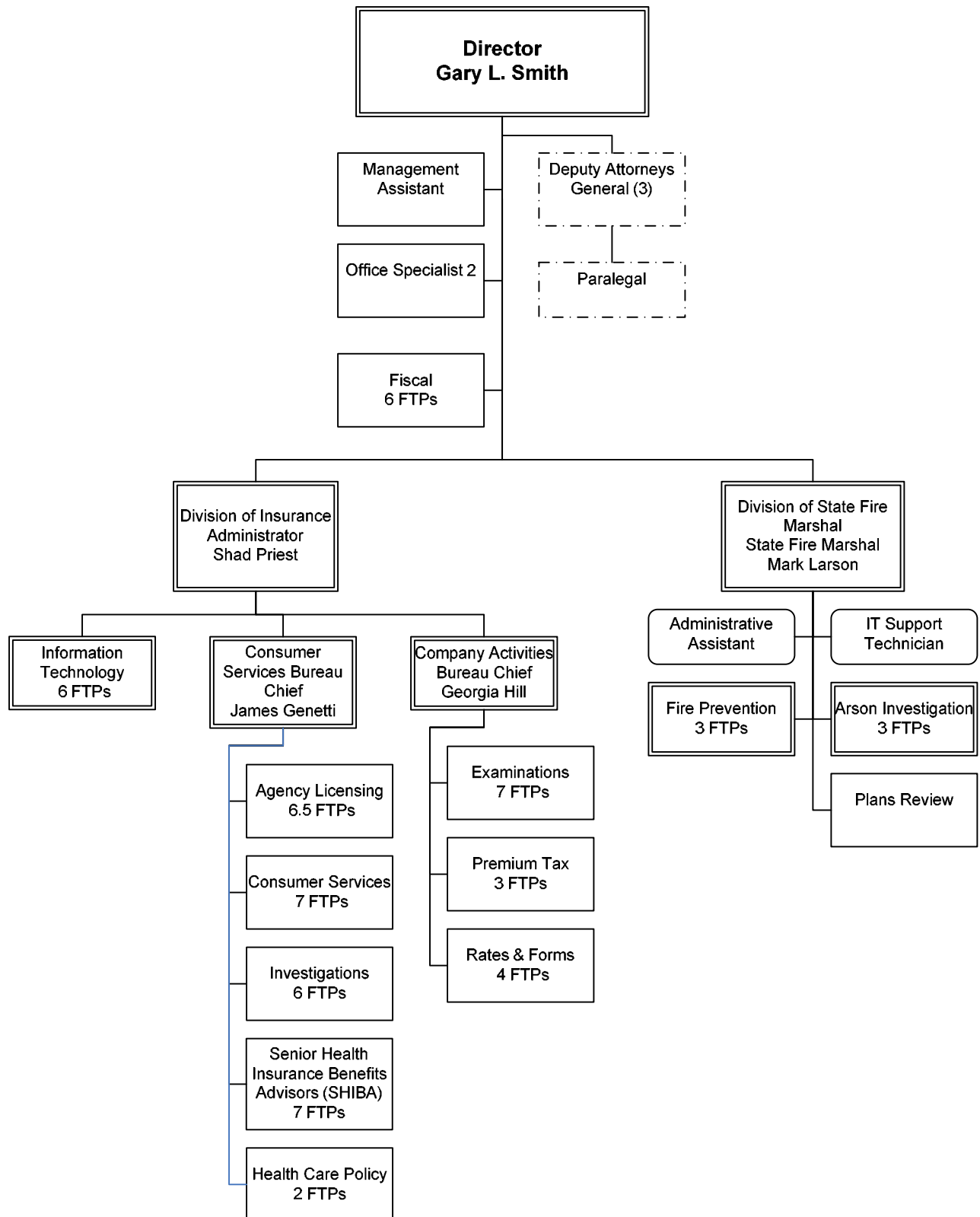
The State Fire Marshal focuses on fire prevention and arson investigation. This is done by enforcing the Uniform Fire Code, investigating suspected arson or fraud, and educating the public in matters of fire prevention and hazardous conditions in buildings or premises.

[Statutory Authority: Idaho Code §41-254 - 265]

# Department of Insurance

## Agency Profile

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### Sources of Funds

	Appropriations		
	FY 2005 Original	FY 2005 Actual	FY 2006 Original*
<b>Self Governing Operating (0229-10):</b> Fees, licenses and miscellaneous charges assessed on the insurance industry.	\$5,064,600	\$4,340,200	\$5,635,400
<b>Self Governing State Fire Marshal (0229-11):</b> Penalties collected as authorized by law; a portion of the continuation fee collected from insurers; other monies or revenues derived from whatever source for arson or fraud investigation or fire prevention; and interest earned on the investment of the fund.	\$934,200	\$903,200	\$1,072,300
<b>Federal Grant (0348):</b> Health Care Financing Administration, U.S. Department of Health and Human Services - Cooperative Agreement Project Grant.	\$167,500	\$243,100	\$217,000
<b>Miscellaneous Revenue (0349):</b> Funding as a sub-grantee of the Office on Aging.	\$84,900	\$74,300	\$88,200
*Includes 27th Payroll amount of \$135,800.	<u>\$6,251,200</u>	<u>\$5,560,800</u>	<u>\$7,012,900</u>

### Selected Measures

Cases Managed and/or Key Services Provided	FY 2002	FY 2003	FY 2004	FY 2005
<b>Company Activities Bureau</b>				
Examinations Performed	8	14	5	5
Companies Admitted/Listed	86	75	72	78
Companies Withdrawn/Suspended/Rvkd	52	47	53	26
Total Companies Regulated	1,787	1,819	1,765	1,834
Title Exams Performed	15	23	20	5
Policy Forms Filed	49,595	50,335	46,797	44,066
<b>Consumer Services Bureau</b>				
Producer licensing applications rec'd	8,223	9,732	11,108	10,384
Producer licenses issued	9,588	8,526	10,880	10,039
Continuing Ed courses rec'd	1,821	2,086	1,888	2,193
Consumer Affairs – Complaints rec'd	1,651	1,341	1,396	1,284
SHIBA – Individual counseling hours	1,925	2,606	4,410	3,708
SHIBA – Audience group sessions	266,195	91,402	106,003	239,470
Investigations – New cases	278	247	288	253
Investigations – Cases referred	45	64	69	73
Investigations – Convictions	34	35	35	17
Investigations - Property recovered	\$6,200,000	\$7,300,000	\$10,900,000	\$8,500,000

# Department of Insurance

## Agency Profile

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### Premium Tax Distribution

The Department of Insurance is responsible for administering and collecting a tax assessed on all insurance premiums. This tax collected from authorized insurers is in lieu of all other state and local taxes with the exception of real property tax. (Idaho Code §41-405)

*Revenue from the premium tax is distributed to the following funds:*

**INSURANCE REFUND:** Used to reimburse insurers for overpayment of taxes, fines, penalties, etc.

**PERSI:** Idaho Code Section 59-1304 provides that at least 50% of the gross tax on fire insurance premiums is used to partially fund the firefighter retirement system. Currently 100% of the gross tax on fire insurance is used.

**HIGH RISK INSURANCE POOL:** If premium tax revenue exceeds \$45 million after all other deductions, 25% of the excess goes into the Individual High Risk Insurance Pool to pay the costs associated with providing health insurance coverage to high risk individuals regardless of health status or claims experience.

**IDAHO HEALTH INSURANCE ACCESS CARD:** If premium tax revenue exceeds \$55 million, 25% of the excess goes to the Idaho Health Insurance Access Card Fund, with 80% going to CHIP Plan B and the children's access card program, and 20% (not to exceed \$1.2 million) to the small business health insurance pilot program. The CHIP Plan B and the children's access card program shall be implemented by July 1, 2004 (FY 2005). Implementation of the small business health insurance pilot program shall begin on July 1, 2005 (FY 2006).

**GENERAL FUND:** the balance of the premium tax, fines and penalties are distributed to the General Fund.

Distribution of Premium Tax Revenues				
	FY04 Act.	FY05 Act.	FY06 Est.	FY07 Est.
General Fund	\$ 63,345,700	\$ 61,671,700	\$ 58,037,800	\$ 56,098,400
Insurance Refund	\$ 4,714,600	\$ 5,738,600	\$ 5,000,400	\$ 4,865,300
PERSI	\$ 4,001,000	\$ 4,268,600	\$ 4,396,700	\$ 4,528,600
High Risk Insurance Pool	\$ 5,190,600	\$ 6,411,050	\$ 5,010,900	\$ 4,286,100
Access Card	\$ 2,690,600	\$ 3,885,050	\$ 2,510,900	\$ 1,786,100
<b>TOTAL</b>	<b>\$ 79,942,500</b>	<b>\$ 81,975,000</b>	<b>\$ 74,956,700</b>	<b>\$ 71,564,500</b>

NOTE: Distributions can exceed actual revenues slightly, the source of which is fees collected by the agency. Idaho Code §41-401(3)(e) provides that "at the beginning of each fiscal year, those moneys in the Insurance Administrative Account which exceed the current year's appropriation plus any residual encumbrances made against prior years' appropriations by twenty-five percent (25%) or more shall be transferred to the general [fund]."

# Department of Insurance

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## Comparative Summary

Decision Unit	Agency Request			Governor's Rec		
	FTP	General	Total	FTP	General	Total
<b>FY 2006 Original Appropriation</b>	<b>71.50</b>	<b>0</b>	<b>7,012,900</b>	<b>71.50</b>	<b>0</b>	<b>7,012,900</b>
HB 395 One-time 1% Salary Increase	0.00	0	35,700	0.00	0	35,700
Omnibus CEC Supplemental	0.00	0	0	0.00	0	41,400
<b>FY 2006 Total Appropriation</b>	<b>71.50</b>	<b>0</b>	<b>7,048,600</b>	<b>71.50</b>	<b>0</b>	<b>7,090,000</b>
Non-Cognizable Funds and Transfers	0.00	0	96,100	0.00	0	96,100
<b>FY 2006 Estimated Expenditures</b>	<b>71.50</b>	<b>0</b>	<b>7,144,700</b>	<b>71.50</b>	<b>0</b>	<b>7,186,100</b>
Removal of One-Time Expenditures	0.00	0	(577,800)	0.00	0	(577,800)
<b>FY 2007 Base</b>	<b>71.50</b>	<b>0</b>	<b>6,566,900</b>	<b>71.50</b>	<b>0</b>	<b>6,608,300</b>
Benefit Costs	0.00	0	56,000	0.00	0	(81,900)
Inflationary Adjustments	0.00	0	29,000	0.00	0	29,000
Insurance Database Replacement	0.00	0	481,900	0.00	0	470,800
Statewide Cost Allocation	0.00	0	216,100	0.00	0	216,100
Change in Employee Compensation	0.00	0	35,800	0.00	0	66,000
Increased Cost for Sprinkler Plan Reviews	0.00	0	50,000	0.00	0	50,000
<b>FY 2007 Program Maintenance</b>	<b>71.50</b>	<b>0</b>	<b>7,435,700</b>	<b>71.50</b>	<b>0</b>	<b>7,358,300</b>
1. Increased Examination Costs	0.00	0	50,000	0.00	0	50,000
<b>FY 2007 Total</b>	<b>71.50</b>	<b>0</b>	<b>7,485,700</b>	<b>71.50</b>	<b>0</b>	<b>7,408,300</b>
Change from Original Appropriation	0.00	0	472,800	0.00	0	395,400
% Change from Original Appropriation			6.7%			5.6%

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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
<b>FY 2006 Original Appropriation</b>					
	71.50	0	6,795,900	217,000	7,012,900

## HB 395 One-time 1% Salary Increase

Reflects a one-time 1% Change in Employee Compensation (CEC) increase.

Agency Request	0.00	0	35,700	0	35,700
Governor's Recommendation	0.00	0	35,700	0	35,700

## Omnibus CEC Supplemental

Agency Request	0.00	0	0	0	0
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The Governor's FY 2007 recommendation is a 3% ongoing increase in employee compensation (CEC), based on merit, to commence in FY 2006 with the January 29 pay period. This will allow agencies to fund employee compensation increases for ten pay periods prior to the end of the current fiscal year. Funding for the remaining 16 pay periods is provided in the FY 2007 CEC.

Governor's Recommendation	0.00	0	40,000	1,400	41,400
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<b>FY 2006 Total Appropriation</b>					
Agency Request	71.50	0	6,831,600	217,000	7,048,600
Governor's Recommendation	71.50	0	6,871,600	218,400	7,090,000

## Non-Cognizable Funds and Transfers

Increased funding from Federal Grants.

Agency Request	0.00	0	7,500	88,600	96,100
Governor's Recommendation	0.00	0	7,500	88,600	96,100

<b>FY 2006 Estimated Expenditures</b>					
Agency Request	71.50	0	6,839,100	305,600	7,144,700
Governor's Recommendation	71.50	0	6,879,100	307,000	7,186,100

## Removal of One-Time Expenditures

Removes \$35,700 provided for HB395; \$135,800 provided for 27th pay period; and \$406,300 in other one-time items.

Agency Request	0.00	0	(505,800)	(72,000)	(577,800)
Governor's Recommendation	0.00	0	(505,800)	(72,000)	(577,800)

<b>FY 2007 Base</b>					
Agency Request	71.50	0	6,333,300	233,600	6,566,900
Governor's Recommendation	71.50	0	6,373,300	235,000	6,608,300

## Benefit Costs

Includes the employer-paid portion of estimated changes in employee benefit costs. The two biggest factors are health insurance rates and retirement rates. Health insurance is projected to increase by 6.1% or \$436 per position. Retirement rates are scheduled to increase by 5.9% from 10.39% to 11% of salary for regular employees and by 5.7% from 10.73% to 11.34% of salary for police and firefighters. Other benefit changes include minor adjustments in unemployment insurance rates and workers compensation rates.

Agency Request	0.00	0	56,000	0	56,000
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Removes the PERSI rate increase and changes benefit costs to reflect a 3.5% or \$250 per FTP increase in health insurance costs. However, the change in health insurance providers, from Blue Shield to Blue Cross, has created a one-time opportunity to use unexpended reserves from the previous contract. This decision unit provides for a health insurance premium reduction equal to two month's premiums for both the employer and employee. Finally, a life insurance holiday is included equal to seven month's premium for the employer's share only.

Governor's Recommendation	0.00	0	(81,900)	0	(81,900)
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# Department of Insurance

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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
<b>Inflationary Adjustments</b>					
Includes a general inflationary increase of 1.9% in operating expenditures and trustee/benefit payments.					
Agency Request	0.00	0	27,200	1,800	29,000
<i>Governor's Recommendation</i>	<i>0.00</i>	<i>0</i>	<i>27,200</i>	<i>1,800</i>	<i>29,000</i>
<b>Insurance Database Replacement</b>					
<b>INSURANCE REGULATION</b>					
The division's replacement capital outlay request includes: 24 PC's (\$39,600); 4 laptops (\$12,000); 3 servers (\$48,000); a copier (\$7,500); 5 printers including 3 large capacity printers (\$25,000); and various miscellaneous items (\$2,500).					
The division's operating expense request includes a new licensing software application (\$250,000). The current licensing software application that is used at DOI has not been supported by the developer for over 5 years. The IT staff for DOI has been the only option of support for the system. Plus the current system is not compliant with the uniformity in licensing required by the National Association of Insurance Commissioners (NAIC). DOI is exploring new system options that meet the NAIC requirements as well as the needs of the department for the foreseeable future.					
The cost breakdown in operating expense is: on-going maintenance (\$55,000) and one-time implementation costs (\$195,000)					
<b>STATE FIRE MARSHALL</b>					
Replacement capital outlay items for the State Fire Marshall program include: 3 PC's (\$4,950); 3 laptops (\$9,000); 3 vehicles (\$75,000); and other miscellaneous equipment (\$8,350).					
Agency Request	0.00	0	481,900	0	481,900
<i>The Governor recommends \$1,500 replacement cost per desktop computer and \$2,000 replacement cost per laptop.</i>					
<i>Governor's Recommendation</i>	<i>0.00</i>	<i>0</i>	<i>470,800</i>	<i>0</i>	<i>470,800</i>
<b>Statewide Cost Allocation</b>					
The Statewide Cost Allocation Plan assesses state agencies for their actual use of Attorney General, State Controller and State Treasurer services and includes changes in property and casualty insurance premiums. This decision unit also includes changes in fees charged for legislative audits and changes in the cost of office space leased to state agencies by the Department of Administration.					
Agency Request	0.00	0	216,100	0	216,100
<i>Governor's Recommendation</i>	<i>0.00</i>	<i>0</i>	<i>216,100</i>	<i>0</i>	<i>216,100</i>
<b>Change in Employee Compensation</b>					
Calculated cost of a 1% salary increase for permanent and group positions.					
Agency Request	0.00	0	34,600	1,200	35,800
<i>Provides funding for the remaining 16 pay periods to annualize the 3% ongoing change in employee compensation recommended in the omnibus CEC supplemental.</i>					
<i>Governor's Recommendation</i>	<i>0.00</i>	<i>0</i>	<i>63,800</i>	<i>2,200</i>	<i>66,000</i>
<b>Increased Cost for Sprinkler Plan Reviews</b>					
The State Fire Marshall is required to provide a plan review/approval service for any automatic fire sprinkler systems installed in the state of Idaho. There is an associated fee that funds the plan review/approval and the State Fire Marshall contracts with a private vendor to provide the actual review/approval service. The real estate boom has caused an increase in the number of plans submitted thus the dollar amount being spent has exceeded the estimated amount budgeted. An increase of \$50,000 in operating spending authority is needed to cover the additional contract review costs.					
Agency Request	0.00	0	50,000	0	50,000
<i>Governor's Recommendation</i>	<i>0.00</i>	<i>0</i>	<i>50,000</i>	<i>0</i>	<i>50,000</i>

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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
<b>FY 2007 Program Maintenance</b>					
Agency Request	71.50	0	7,199,100	236,600	7,435,700
<i>Governor's Recommendation</i>	<i>71.50</i>	<i>0</i>	<i>7,119,300</i>	<i>239,000</i>	<i>7,358,300</i>

## 1. Increased Examination Costs

## Insurance Regulation

The Department of Insurance is requesting funds to complete the examinations of Idaho domestic insurers and other entities required every five years. Specialized knowledge is required by the individuals and firms the department utilizes to examine insurers, including actuarial and computer specialists. The cost and need to utilize these experts has increased since the last examination period so an additional \$50,000 in operating expense is estimated to cover the increase in costs.

Agency Request	0.00	0	50,000	0	50,000
<i>Governor's Recommendation</i>	<i>0.00</i>	<i>0</i>	<i>50,000</i>	<i>0</i>	<i>50,000</i>

<b>FY 2007 Total</b>					
Agency Request	71.50	0	7,249,100	236,600	7,485,700
<i>Governor's Recommendation</i>	<i>71.50</i>	<i>0</i>	<i>7,169,300</i>	<i>239,000</i>	<i>7,408,300</i>

### Agency Request

Change from Original App	0.00	0	453,200	19,600	472,800
% Change from Original App	0.0%		6.7%	9.0%	6.7%

### *Governor's Recommendation*

<i>Change from Original App</i>	<i>0.00</i>	<i>0</i>	<i>373,400</i>	<i>22,000</i>	<i>395,400</i>
<i>% Change from Original App</i>	<i>0.0%</i>		<i>5.5%</i>	<i>10.1%</i>	<i>5.6%</i>